

Message Text

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ACTION EUR-12

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PASS AGRICULTURE

E.O. 11652: N/A

TAGS: EAGR, EEC

SUBJECT: A U.S. DEMARCHE ON PROPOSED EC PRICE INCREASES

REF: (A) 75 EC BRUSSELS 11315, (B) 75 EC BRUSSELS 11316,
(C) EC BRUSSELS 77, (D) PARIS 2266

1. THE USG HAS BEEN OFFICIALLY SILENT SINCE THE EC COMMISSION
SUBMITTED ITS PROPOSED GRAIN PRICE INCREASE TO THE COUNCIL.
THE SILENCE HAS NOT GONE UNNOTICED, PARTICULARLY BY THOSE COM-
MUNITY MILLERS WHO DEPEND HEAVILY ON IMPORTED WHEAT FOR THEIR
BREAD FLOUR BLENDS, SUCH AS U.K. MILLERS, AND BY THOSE DEPEND-
ENT ON IMPORTED FEEDSTUFFS. WE HAVE BEEN TOLD ON SEVERAL OCCAS-
SIONS BY AUTHORITY EC MILLING INDUSTRY SOURCES THAT HIGHER
THRESHOLD PRICES WILL INFLUENCE MILLERS TO SUBSTITUTE CHEAPER,
LOWER QUALITY EC WHEAT FOR INCORPORATION IN THEIR BLENDS
TO THE EXTENT THEY CAN STILL MEET THEIR QUALITY STANDARDS.
THEY ASSURE US THERE IS MARGIN TO DO SO -- EVERYTHING ELSE

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BEING EQUAL.

2. THE COMMISSION'S PROPOSALS FOR GRAIN PRICE INCREASES RANGE FROM 5.5 TO 9.5 PERCENT, DEPENDING ON THE GRAIN. THESE INCREASES WOULD BE SOMEWHAT LOWER IF ACCOUNT IS TAKEN OF THE RELATED PROPOSALS TO REDUCE THE MONETARY COMPENSATORY AMOUNTS (REF. A). ON THE AVERAGE, THE PROPOSED INCREASES ARE BELOW THE GENERAL RATE OF INFLATION IN THE COMMUNITY IN 1975.

3. THERE IS WIDE FARMER DISCONTENT THAT THE COMMISSION'S PROPOSED GRAIN PRICES ARE INADEQUATE. COPA CLAIMS THAT THEY AMOUNT TO AN AVERAGE INCREASE OF ONLY 5.8 PERCENT IN TARGET OR GUIDE PRICES, WHEN CONVERTED TO NATIONAL CURRENCIES USING A REVALUED GREEN EXCHANGE RATE IN GERMANY, FRANCE, ITALY AND THE BENELUX COUNTRIES, AS THE COMMISSION PROPOSED; AND FARMERS CANNOT BE SURE OF RECEIVING TARGET OR GUIDE PRICES FOR THEIR PRODUCTS. THEREFORE, COPA PROPOSES GRAIN PRICE INCREASES OF FROM 10 TO 13 PERCENT, DEPENDING ON THE GRAIN.

4. THE AGRICULTURAL SECTION OF THE EUROPEAN PARLIAMENT'S ECONOMIC AND SOCIAL COMMITTEE CONCLUDED THAT PRICES SHOULD BE INCREASED BY 9 PERCENT. THE MAIN FRENCH FARMERS ORGANIZATION, FNSEA, AND THE LEFT WING FARMERS ORGANIZATION MODEF, WILL DEMONSTRATE ON FEBRUARY 17 TO PRESSURE THE GOF TO OBTAIN THE PRICE INCREASES PROPOSED BY COPA. (REF. C); AND PRIME MINISTER CHIRAC AND AGRICULTURAL MINISTER BONNET MADE PUBLIC STATEMENTS THAT MOST OF THE COMMISSION'S PRICE PROPOSALS WERE UNACCEPTABLE LOW. THE HIGHER THE PRICE INCREASES, OF COURSE, THE WIDER THE SPREAD BETWEEN EC AND WORLD MARKET PRICES AND THE GREATER THE DIRECT EFFECT ON US TRADE THROUGH INCREASED IMPORT LEVIES OR EXPORT SUBSIDIES.

5. THE MISSION BELIEVES IT WOULD BE USEFUL IF THE DEPARTMENT WOULD SEND GUIDANCE TO US AND TO OUR EMBASSIES AS TO THE ORDER OF MAGNITUDE OF THE EFFECTS ON OUR TRADE OF THE INCREASES IN EC GRAIN PRICES AND RELATIVE PRICE CHANGES WHICH ARE CURRENTLY UNDER DISCUSSION IN THE EC. WE CAN UNDERSTAND LARDINOIS' EFFORT TO TAKE INTO ACCOUNT IN THE NEW GRAIN PRICES THE INFLATIONARY INCREASES INPUT COSTS OF GRAIN PRODUCTION, BUT, UNLESS THE WORLD IS FACING ANOTHER YEAR OF ACARCITY, EXCESSIVE EC GRAIN PRICE INCREASES WOULD WIDEN THE MARGIN OF EC AND WORLD LIMITED OFFICIAL USE

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PRICES. WHILE WE DO NOT BELIEVE A FORMAL DEMARCHE ON THIS SUBJECT IS LIKELY TO BE PRODUCTIVE WE DO BELIEVE THAT WE SHOULD BE ABLE TO RESPOND TO QUESTIONS ON HOW WE EXPECT THE INCREASES IN LEVIES AND EXPORT SUBSIDIES, AS WELL AS THE CHANGE IN THE WHEAT/FEED GRAIN PRICE RATIOS, TO AFFECT OUR TRADE. SUCH GUIDANCE WOULD BE USEFUL - IN THE HANDS OF THOSE IN THE COMMUNITY WHO SEEK RELATIVELY STABLE PRICES, E.G., UK AND ITALY - IN DAMPENING LARGE INCREASES THAT WOULD AFFECT OUR SALES HERE

AND IN THIRD MARKETS. ANY SUCH GUIDANCE SHOULD CONCENTRATE
ON THE EXTERNAL EFFECTS AND SHOULD MAKE CLEAR THAT THIS ISSUE
IS QUITE SEPARATE FROM THE MTN NEGOTIATIONS.MORRIS

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